

## SECRET

## AGRICULTURE

ISSUE

EC agricultural policies represent the single greatest distortion of world agricultural trade. Efforts by the United States and other principal agricultural trading countries to moderate the negative impact of EC policies have been unsuccessful. The EC has continued unwarranted increases in its intervention in support of its farmers. Although the direct cost of the price supports have been borne by EC taxpayers, U.S. farmers have paid the indirect costs through lost export sales and lower world prices; U.S. taxpayers have paid through higher cost farm programs.

The farm community believes that a more competitive footing for U.S. exports must be established either through direct U.S. Government assistance or by eliminating the unfair advantages provided by the EC to its producers. In the last year, the United States has introduced a series of complaints to the General Agreement on Tariffs and Trade (GATT) on separate EC practices.

The EC has maintained that the U.S. actions are an attack on the CAP and a threat to its sovereignty. The EC points to the U.S. bilateral trade surplus with the EC in agriculture as an indication of the openness of the EC market. (In the past, the United States was able to obtain several key agricultural concessions from the EC including duty-free entry for soybeans and certain feed grains.) It points to distortions caused by U.S. agricultural policies such as our marketing orders for fruits and vegetables, our price supports and our import quotas, particularly on dairy and sugar.

Because the GATT rules on agricultural subsidies are ineffective, the U.S. Government may lose some of its GATT cases against the EC. At the November 23-26 GATT Ministerial, the Government intends to seek a commitment to tougher rules on agricultural subsidies. The EC realizes that it will be the target of these rules and is wary of the commitment.

BACKGROUND

The CAP has enabled the EC not only to achieve self-sufficiency in many commodities but also to produce surpluses which can only be disposed of by government-subsidized sales to third countries. Inside the EC, the CAP is viewed as a success. It has protected farm income and helped the EC to achieve self-sufficiency in many products. Outside the EC, however, the effects of EC policies are looked upon as a major distortion of normal competitive trade development, both in the EC market and in third-country markets.

The United States and other major agricultural countries have, for the most part, refrained from defending their interests too forcefully, in the interest of preserving European unity. However, in recent years it has become clear that the CAP has

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SECRET

SECRET

- 2 -

permitted production of many products to reach proportions that can be managed only by shifting the cost to other countries. This is accomplished by insulating the EC farmer from price fluctuations with tight import protection, encouraging him to overproduce through high guaranteed support prices, and pouring the resulting overproduction onto the world market with export subsidies, regardless of the existing price situation in the world market.

The Administration, following consultations with leaders of Congress and the farm community, has decided to defend its interests where EC practices are hurting U.S. trade and, therefore, the domestic economy. U.S. farm income in real terms is at its lowest point since the depths of the great depression. Because of this situation, the Federal Government may find itself making huge financial outlays in deficiency payments and other aids to farmers. At least a portion of these difficulties find their root in the domestic support and export subsidy programs of the EC.

In the early 1970's the EC was considerably less than self-sufficient in several important agricultural commodities including wheat and wheat flour, beef and veal, poultry and sugar. By the mid-1970's, through the price support and income enhancement provisions of the CAP, the EC had achieved self-sufficiency in all of these commodities. But production increases did not stop there. In the 1970's and 1980's, surplus production has been dumped into world markets with the use of large export subsidies, in direct competition with the U.S. and other traditional export suppliers. (See figure 1.)

A recent analysis by USDA in conjunction with Michigan State University shows that, had the EC held wheat exports in 1981 at the previous year's level, they would have exported 7 MMT less. The U.S. could have exported 4.1 MMT more with an export value of \$816 million (Canada 1 MMT, Australia 2MMT, and Argentina .1 MMT more), U.S. wheat producer's price would have been \$.50 higher, U.S. GNP would have been \$4.4 billion higher, federal tax revenue would have been \$98 million greater and 16,000 jobs would have been created.

A large portion of EC agricultural exports are in the high value unprocessed, processed or semi-processed category and are exported through the use of producer, processing and export subsidies. U.S. agriculture is unable to compete in this high value market that is more stable and provides greater returns to the total economy per ton exported than do the lower value bulk commodities as long as the EC continues its subsidy policies. In 1970 the unit value of all U.S. agricultural exports was \$170 per ton; by 1980 this unit value was \$265 per ton. During the same period the unit value of EC agricultural exports grew from about \$400 per ton to \$1225 per ton.

- 3 -

In the case of sugar, the Community's subsidies have contributed to depress world prices which have caused the United States to institute fees and quotas to protect our domestic producers.

We face heavily subsidized EC products in a number of markets. Their poultry competes with ours in the Middle East; their wheat flour takes markets all around the world; their beef exports depress prices in a number of markets; and their dairy exports are part of the justification for maintaining our own quotas on dairy imports. Since the adoption of a common agricultural policy, the EC has changed from a net importer to a net exporter of one key agricultural product after another with tremendous impact on world markets; this trend shows every sign of continuing. They have aggressively taken markets from our private sector with the use of the combined treasure's of ten Member States.

Over a period of years, we have attempted to work out our differences bilaterally, but the EC has told us repeatedly either that we are not being hurt or that it is the Community's right to subsidize and that we should not complain. Since our bilateral discussions have been unproductive, we have taken these differences to the dispute settlement mechanism of the GATT. Although some in the EC view this as a hostile act, we see it as using arbitration to defend our rights as a contracting party to the GATT.

#### CURRENT SITUATION

The GATT cases now in progress are in each instance an attempt to pursue legitimate trade complaints. However, they also are a signal to the EC that the United States will no longer tolerate government-induced trade distortions. This is all the more crucial now that the EC is considering, for internal budgetary reasons, ways to "reform" the CAP. The United States is concerned that, among other things, some of the suggested reforms will solidify and institutionalize gains in EC exports to third country markets brought about by subsidies.

On June 24, we received formal notification from the EC that they want GATT Article 22 consultations to discuss the "disruptive effect of imports of corn gluten feed," one of the more valuable tariff concessions that we have with the EC. The Community would like to restrict such imports. To ease our pressure on EC agricultural policies would encourage the EC to seek restraints on other valuable concessions.

On the other hand, we need to find ways to strengthen the hands of those in the EC (especially the British, Dutch and Germans) who share many of our concerns and are seeking ways of making the CAP more rational. We have, in fact, been encouraged by officials in these Governments and by the Budget and External Affairs Directorate of the Commission to persevere in our efforts as the only way to bring about effective change in Community unfair trade practices.

# EC SELF-SUFFICIENCY IN SELECTED COMMODITIES

